Seventy-Third

ANNUAL REPORT

Year Ended December 31

1967

CENTRAL OF GEORGIA RAILWAY COMPANY

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Officers

CENTRAL OF GEORGIA RAILWAY COMPANY

W. GRAHAM CLAYTOR, JR. . . *Chairman of the Board and Chief Executive Officer, Washington, D.C.*

R. E. FRANKLIN . . . . . *President, Savannah, Ga.*

W. H. MOORE . . . . . *Vice President-Operations, Washington, D.C.*

WILLIAM V. BURKE . . . . . *Vice President-Sales, Washington, D.C.*

ROBERT S. HAMILTON . . . . . *Vice President-Marketing, Washington, D.C.*

JOHN B. MILLER . . . . . *Vice President-Law, Savannah, Ga.*

JAMES S. CROW . . . . . *Vice President-Finance and Taxation, Washington, D.C.*

W. R. DIVINE . . . . . *Vice President and Comptroller, Washington, D.C.*

WILLIAM D. McLEAN . . . . . *Vice President, Washington, D.C.*

GEORGE S. PAUL . . . . . *Vice President-Personnel, Washington, D.C.*

ALLEN H. DOUGLAS . . . . . *Vice President-Industrial Development, Atlanta, Ga.*

J. J. MAHER . . . . . *Secretary, New York, N.Y.*

ROBERT H. SMITH . . . . . *Treasurer, Washington, D.C.*

Board of Directors

CENTRAL OF GEORGIA RAILWAY COMPANY

WINTON M. BLOUNT . . . . . *President, Blount Brothers Corp., Montgomery, Ala.*

FRANK E. BONE . . . . . *Vice President, Amsted Industries, Inc., Milledgeville, Ga.*

*W. GRAHAM CLAYTOR, JR. . *Chairman of the Board and Chief Executive Officer, Central of Georgia Railway Company; President, Southern Railway Company, Washington, D.C.*

ERLE COCKE, SR. . . . . *Retired Vice President-Staff, Central of Georgia Railway Company, Atlanta, Ga.*

WILLIAM E. DILLARD . . . . . *Retired President, Central of Georgia Railway Company, Savannah, Ga.*

*R. E. FRANKLIN . . . . . *President, Central of Georgia Railway Company, Savannah, Ga.*

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ROBERT W. GROVES . . . . . *Chairman of the Board, Strachan Shipping Company, Savannah, Ga.*

CHARLES C. HERTWIG . . . . . *Retired Chairman of the Board, Bibb Manufacturing Company, Macon, Ga.*

JULIAN T. HIGHTOWER . . . . *President, Thomaston Mills, Thomaston, Ga.*

THOMAS M. JOHNSON . . . . . *President, Johnson, Lane, Space, Smith & Co., Inc., Savannah, Ga.*

*JOHN J. McDONOUGH . . . . . *Associate, Finch Alexander Barnes Rothschild & Paschal, Atlanta, Ga.*

JOHN B. MILLER . . . . . *Vice President-Law, Central of Georgia Railway Company, Savannah, Ga.*

*W. H. MOORE . . . . . *Vice President-Operations, Southern Railway Company, Washington, D.C.*

WALTER C. SCOTT . . . . . *Vice President & Secretary, Savannah Sugar Refining Corp., Savannah, Ga.*

HUGH M. TARBUTTON . . . . . *Vice President, Treasurer and Traffic Manager, Sandersville Railroad Company, Sandersville, Ga.*

RICHARD TIFT . . . . . *Richard Tift Company, Albany, Ga.*

ROBERT TRAIN . . . . . *President, Bibb Manufacturing Company, Macon, Ga.*

MARTIN L. TRESSEL . . . . . *Retired Vice President, Alcoa International, Inc., Pittsburgh, Pa.*

*D. ABBOTT TURNER . . . . . *Chairman of the Board, Columbus Bank & Trust Company, Columbus, Ga.*

S. S. WILBANKS . . . . . *Vice President-Assistant to the President, Southern Railway Company, Washington, D.C.*

* Member of Executive Committee

To the Stockholders of
CENTRAL OF GEORGIA RAILWAY COMPANY:

Railway operating revenues of your Company for the year 1967 were $45,732,000, a decrease of $3,214,000 from 1966. Net income for the year was $15,000 compared to $116,000 in 1966. However, it should be noted that the Company would have shown a loss of $1,984,000 had it not been for a non-recurring dividend of $1,999,500 which it received from a subsidiary.

D. W. Brosnan, Chairman of the Board and Chief Executive Officer and member of the Executive Committee, retired on November 28, 1967 and has been succeeded in these capacities by W. Graham Claytor, Jr., President of Southern Railway Company.

William E. Dillard, President and a member of the Board, retired as President on February 29, 1968 after more than 52 years service to the Company. Mr. Dillard, who remains on the Board of Directors, has been succeeded as President by R. E. Franklin. Mr. Franklin, who became Assistant President of Central in 1967, previously was Vice President—Transportation and Maintenance of Pennsylvania Railroad. Prior to his service with the Pennsylvania, he was Senior Vice President, Southern Railway Company.

Earle F. Bidez, Executive Vice President and a member of the Board, retired from these offices on October 31, 1967 after 50 years of service.

By further opinion and order dated November 15, 1967 in its Finance Docket 21400, relating to acquisition of control of Central by Southern Railway Company, the Interstate Commerce Commission held that Sections 4, 5 and 9 of the Washington Job Protection Agreement had been imposed by the Commission as conditions of control of Central by Southern. These conditions require notice and negotiation with the labor organizations prior to the consolidation of facilities so as to establish the employment rights of employees at the consolidated facilities. It is not possible at this time to make a reasonable estimate of the future liability created by this further opinion and order of the Interstate Commerce Commission.

There is still pending in the United States District Court for the District of Columbia the complaint of two minority stockholders filed in 1965 seeking to compel the declaration and payment of dividends on preferred stock of the Central for the years 1960 to date and for future years. No date for hearing on this complaint has been set. Counsel for the company continues of the opinion that the suit is without merit because the dividend policy of the Company has been and is consistent with both the law and business realities, and that proper priority has been followed in the application of funds to the necessary expenditures for the upgrading of the physical properties and equipment of the Company. No dividends were paid on Central's preferred stock in 1967.

In addition to the comparative statement of income and balance sheet which have been audited by certified public accountants, and which are a part of this report, there is enclosed a copy of the Southern Railway Company Annual Report for 1967. The Southern report is on a consolidated basis, including Southern Railway Company and all subsidiaries, including Central of Georgia, in which Southern's ownership is 80% or more. Southern and a subsidiary own 98.5% of the preferred stock and 99.3% of the common stock of Central of Georgia.

Sincerely,

W. Graham Clayton, Jr.

Chairman of the Board

CENTRAL OF GEORGIA RAILWAY COMPANY

STATEMENT OF INCOME AND RETAINED INCOME

YEARS 1967 AND 1966

	1967	1966
Railway operating revenues:		
Freight	$42,690,991	$45,573,271
Passenger	979,494	1,173,995
Mail	699,702	684,126
All other	1,362,005	1,515,017
Total	45,732,192	48,946,409
Railway operating expenses:		
Maintenance of way and structures	9,649,633	9,957,166
Maintenance of equipment	9,904,023	8,315,285
Traffic	1,535,991	1,800,058
Transportation	19,194,519	19,920,569
Other	3,725,830	3,311,149
Total	44,009,996	43,304,227
Federal income taxes—note 1	(2,043,000)	(1,182,000)
Taxes other than federal income	2,907,877	2,811,628
Equipment rent expense	1,681,039	2,108,303
Joint facility rent expense	830,205	955,484
	47,386,117	47,997,642
Net railway operating income (loss)	(1,653,925)	948,767
Other income:		
Dividends from subsidiary companies net of non-recurring dividend shown below—note 2	1,560,000	555,000
Interest	142,969	337,224
Miscellaneous	227,720	693,508
	276,764	2,534,499
Miscellaneous deductions from income	77,977	139,125
	198,787	2,395,374
Interest and other fixed charges	1,632,157	1,723,884
Contingent interest	550,687	555,431
Net income (loss) before extraordinary item	(1,984,057)	116,059
Non-recurring dividend from subsidiary company—note 2	1,999,500	—
NET INCOME FOR THE YEAR	$ 15,443	$ 116,059
Retained income beginning of year	17,568,503	17,740,395
Less: Loss on retirement of yard facilities	—	(287,951)
Retained income end of year	$17,583,946	$17,568,503

CENTRAL OF GEORGIA RAILWAY COMPANY

COMPARATIVE BALANCE SHEET

DECEMBER 31, 1967 AND 1966

ASSETS	1967	1966
Current assets:		
Cash	$ 17,109	$ 49,047
Marketable securities—at amortized cost	997,856	996,936
Accounts and other receivables	6,032,790	4,493,193
Materials and supplies—at average cost	382,390	1,438,841
Other current assets	30,899	99,526
	7,461,044	7,077,543
Capital and other funds	419,253	721,280
Investments in and advances to affiliates—note 2	14,363,726	14,325,743
Road, structures and equipment less accumulated depreciation—note 3	107,517,592	109,155,727
Other assets	1,315,173	1,990,797
Total assets	$131,076,788	$133,271,090

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 9,515,133	$ 6,609,517
Accrued expenses and other liabilities	4,342,762	3,454,275
Current liabilities excluding current portion of long-term debt	13,857,895	10,063,792
Long-term debt—note 7:		
Due within one year	3,325,095	3,831,725
Due after one year	41,605,280	44,330,883
Amounts payable to affiliates	2,485,000	5,484,500
Other liabilities	1,446,910	1,219,125
	62,720,180	64,930,025
Shareholders' equity:		
5% preferred stock, $100 par value—230,000 shares authorized 170,394 shares outstanding	17,039,400	17,039,400
Common stock, no par value—500,000 shares authorized		
Outstanding: 1967—337,241	33,724,100	
1966—337,240		33,724,000
Capital surplus	9,162	9,162
Income retained in the business—note 4	17,583,946	17,568,503
	68,356,608	68,341,065
Total liabilities and shareholders' equity	$131,076,788	$133,271,090

NOTES TO FINANCIAL STATEMENTS

Note 1—Federal Income Taxes

The Company is included in the consolidated federal income tax return of Southern Railway Company, to which it contributed a tax loss for both 1967 and 1966. The income statements reflect the payments from the consolidated group for use of the Company's tax loss in the consolidated return.

The Company keeps its books in accordance with the rules and regulations of the Interstate Commerce Commission, which do not provide for the recognition of possible deferred income tax resulting from use of accelerated depreciation methods or rates for tax purposes. The excess of tax depreciation over book depreciation has the effect of increasing the credit for use of the Company's tax loss by $488,000 for 1967 and $408,000 for 1966. The cumulative amount of tax benefit to the Company from these practices aggregates $12,239,000 to the end of 1967.

At December 31, 1967, the Company had available an unused net operating loss carryover of $424,000 which can be used to reduce future taxable earnings of the Company. There were also $2,382,000 of unused investment credits available at the year end, which can be used to reduce future federal income taxes of the Company.

At year end the Internal Revenue Service had proposed assessments against the Central of Georgia Railway Company incident to its federal income tax returns for the years 1950 through 1961 of $1,826,000. Preliminary conference has been held with IRS. Since it is not possible at this time to estimate the ultimate cost to the Company, no provision has been made in the accounts for this item.

Note 2—Equity in Subsidiaries

The Company's equity in subsidiaries in which it or its parent holds directly or indirectly 80% or more of the voting stock exceeds the carrying value of such investment by $9,100,000 at December 31, 1967. Its equity in the earnings (unaudited) of these companies amounted to $1,035,000 and $1,205,000 for 1967 and 1966 respectively.

The non-recurring dividend from a subsidiary company was included in the annual report to the ICC as dividend income.

Note 3—Properties

Road, structures and equipment shown on the balance sheet comprise the following:

	1967	1966
Road	$ 71,031,332	$ 70,484,616
Equipment	79,011,088	83,113,212
Other property	1,804,427	1,809,682
	151,846,847	155,407,510
Accumulated depreciation	44,329,255	46,251,783
Net properties	$107,517,592	$109,155,727

Depreciation is computed using the straight line method over lives approved by the ICC and amounted to $3,537,000 for 1967 and $3,280,000 for 1966. Accounting procedures prescribed by the ICC do not provide for depreciation on track structures. In lieu of this, current costs of renewals and maintenance are charged to expense. Expense of renewals and maintenance of track structure amounted to $5,120,000 for 1967 and $4,778,000 for 1966.

Note 4—Dividends Payable

Preferred stock dividends are cumulative for a period of three years. The Company's retained earnings are restricted as to payment of dividends on common stock until preferred dividends of $2,555,910 have been declared and paid.

Note 5—Dismissal and Displacement Payment

The Order of the ICC allowing acquisition of controlling interest in the Company by Southern Railway Company provides for protection to employees dismissed or displaced as a direct result of this acquisition. This protection is in the form of payments equivalent to the affected individual's average wages for a period prior to this transaction. Any amounts earned by the affected employee enter into the computation of amounts payable by the Company. The Company has made final lump-sum settlements with some of the employees covered by the protection provisions of the Order. During 1967, $1,000,000 was charged to expense as a result of these employee protection provisions compared with $700,000 during 1966.

The Company's interpretation of the employee protection provisions of the ICC Order was challenged and, during 1967, the ICC rendered a further Opinion and Order pertaining to these provisions. It is not possible at this time to make a reasonable estimate of the future liability of the Company, if any, for dismissal or displacement payments.

Note 6—Contingent Liabilities

At the end of 1967, the Company was contingently liable, separately or jointly with others, on indebtedness of or assumed by affiliated companies in the approximate amount of $557,000.

The Company, together with other major railroads, has agreed to advance funds to meet principal and interest payments on certain equipment obligations of Trailer Train Company, but only in the unlikely event that charges for the use of this equipment are insufficient to meet these payments.

The Company is a participant, together with other railroads, in a service interruption policy requiring payment of limited additional premiums if claims are filed by other participants.

There is pending in the United States District Court for the District of Columbia a suit filed in 1965 to compel the declaration and payment of dividends on preferred stock for 1960 and subsequent years. In the opinion of counsel for the Company, the suit is without merit.

Note 7—Long-term Debt

Long-term debt of the Company on December 31, 1967, was as follows:

	Due Within One Year	Due After One Year	Total
Bonds:			
First Mortgage Series A—4%—due January 1, 1995	$ 59,267	$10,373,434	$10,432,701
General Mortgage (Income) Series B—4½%—due January 1, 2020	70,300	12,134,400	12,204,700
	129,567	22,507,834	22,637,401
Equipment obligations—payable serially:			
Equipment trusts maturing to 1972	1,041,937	1,596,342	2,638,279
Conditional sale agreements maturing to 1982	2,028,971	17,166,515	19,195,486
Notes payable—maturing in 1971	124,620	334,589	459,209
Total equipment	3,195,528	19,097,446	22,292,974
Grand total	$3,325,095	$41,605,280	$44,930,375

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

1100 CONNECTICUT AVENUE, N.W.
WASHINGTON, D. C. 20036

To the Stockholders,
Central of Georgia Railway Company:

We have examined the balance sheet of CENTRAL OF GEORGIA RAILWAY COMPANY as of December 31, 1967, and the related statement of income and retained income for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company maintains its accounts in conformity with the Uniform System of Accounts for Railroad Companies prescribed by the Interstate Commerce Commission and the accompanying financial statements have been prepared in accordance therewith. The provisions of the Uniform System of Accounts vary from generally accepted accounting principles in that no accounting recognition is given to the possible effect on income taxes in future years of current benefits, referred to in Note 1 to the financial statements, resulting from the deductions (net) for amortization and depreciation of property for income tax purposes in excess of the deductions recorded in the accounts.

In our opinion, subject to the Internal Revenue Service proposed assessments referred to in Note 1 and to the ultimate liability for dismissal or displacement payments referred to in Note 5 to the financial statements and except for the matter referred to in the preceding paragraph, the accompanying balance sheet and the statement of income and retained income present fairly the financial position of the Company at December 31, 1967, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

March 12, 1968

A RESOLUTION HONORING WILLIAM E. DILLARD, UNANIMOUSLY ADOPTED BY THE BOARD OF DIRECTORS, DECEMBER 2, 1967

William E. Dillard's years as president of the Central of Georgia Railway have been years of challenge and change—a time of technological advancement, accelerated mechanization of track and equipment maintenance, and new and competitive approaches to rate-making. Central of Georgia under his leadership developed an increased sensitivity to the needs of the shipping public and figured importantly in the industrial development of the South.

To the demands of leadership, Bill Dillard brought both native ability and a wide range of railroad experience. Born in Buena Vista, Ga., on February 13, 1898, he began a career of cheerful hard work by delivering groceries on foot for Uncle Reel Allen's store in Ellaville, Ga. He carried dreams as well as groceries in his basket and, in the lonely wail of locomotive whistles in the South Georgia night, heard the call of opportunity in the railroad industry.

He had just turned seventeen when he joined Central of Georgia as night duty ticket clerk at Ellaville—writing out tickets by the light of a kerosene lamp and flagging trains with torches, scarcely daring to dream that he would one day be in charge of the entire railroad as its president.

Endowed with ability and industry that matched his eagerness to shoulder greater responsibility, the young man advanced to telegraph operator, agent, trainmaster, division superintendent, general superintendent, general manager, and vice president and general manager. He had served under ten of the first twenty presidents of the Central of Georgia before he was elected president of the Company on July 16, 1954.

Outstanding ability and devotion to duty have consistently won for Bill Dillard the admiration and respect of those associated with him. His thoughtfulness and warmth surround him with lasting friendships and make him a most effective ambassador of good will for Central and for the railroad industry.

With his retirement as president on February 29, 1968, he will have given more than 52 years of untiring service to Central of Georgia. His colleagues on the railway's board of directors feel a keen regret at his departure from active management but they are heartened by the prospect of a continuing association with him as a director of the Central system companies.

Now, therefore, be it resolved that the members of the board of directors of the Central of Georgia Railway express to William E. "Bill" Dillard their deep appreciation for his splendid service to the Company, their high regard for him as a friend and associate, and their warm good wishes for the years ahead.

LOOK AHEAD-LOOK SOUTH

PRINCIPAL OFFICE.....227 West Broad Street, Savannah, Ga. 31401

WASHINGTON OFFICE..920 Fifteenth Street, N.W., Washington, D. C. 20005

NEW YORK OFFICE.....70 Pine Street, New York, N. Y. 10005

STOCK TRANSFER AGENT.....Bankers Trust Company
16 Wall Street, New York, N. Y. 10015

REGISTRAR OF STOCK....Morgan Guaranty Trust Company of New York
30 West Broadway, New York, N. Y. 10015